

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: Dr. T.C.NAIR, WHOLE TIME MEMBER

ORDER

IN THE MATTER OF M/s. SHARE AIDS, SUB BROKER TO SKSE SECURITIES LTD. MEMBER OF SAURASHTRA KUTCH STOCK EXCHANGE LTD., SEBI REGN. NO. INB180573313 IN THE SCRIP OF SHREE YAAX PHARMA AND COSMETICS LTD.

- 1.1 Shree Yaax Pharma & Cosmetic Ltd. (hereinafter referred to as “the company”) is incorporated at Ahmedabad on March 09, 1995. The company is primarily engaged in manufacturing/export of pharmaceuticals and cosmetic products. The company had come out with a public issue in the year 1996. Its shares are listed at the Bombay Stock Exchange Ltd. (BSE) on February 28, 1996.
- 1.2 SEBI conducted investigation into buying, selling or dealing in the shares of the company due to unusual rise in the prices during the period August 01, 2002 to November 22, 2002 (hereinafter referred to as investigation period). It was found that the price of the scrip had gone up from Re.1.00 on August 1, 2002 to Rs. 10.90 on November 22, 2002 which indicated significant increase in the price of the scrip during the short span of less than 4 months. During this period, the volume of shares traded at BSE had also risen significantly from around 500 shares to more than 3,00,000 shares. The rise in the price in the scrip was not backed by fundamentals of the company or its financial performance.
- 1.3 During the period under investigation, a total of 46,94,040 shares were traded (purchase and sale) on BSE. The scrutiny of the trades in the scrip showed that the trades were executed mainly by five member brokers namely Equisearch Broking Pvt. Ltd., Grishma Securities Pvt. Ltd., Ess Ess Intermediaries Pvt. Ltd., Share Aids, broker of SKSE and sub broker of SKSE Securities Ltd., Bonanza Stock Brokers Pvt. Ltd. and Lagan Fincap Leasing Ltd (Sub-broker of Bonanza Stock Broker Ltd) created artificial volumes in the scrip which distorted market equilibrium of shares. Further, on scrutiny of the trades of these five member brokers, it was found that they had mainly traded on behalf of 7 clients/ultimate clients viz.

- i. Kajol Impex Ltd.,
 - ii. Trans Fiscal Pvt. Ltd.,
 - iii. Gaurang G Patel,
 - iv. Samir D Patel,
 - v. Paresh Champaklal Shah,
 - vi. Umit Vinodbhai Patel and
 - vii. Sudhirbhai Shah.
- 1.4 M/s. Share Aids (hereinafter referred to as “Share Aids”), broker of Saurashtra and Kutch Stock Exchange Ltd. and sub broker of SKSE Securities Ltd. was identified as one of them who along with other brokers was alleged to have acted in concert in manipulation of the scrip.
- 2.1 Pursuant to the investigation, an Enquiry Officer was appointed by SEBI Board vide order dated July 26, 2004 in terms of provisions of Regulation 5 of the SEBI (Procedure for holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as Enquiry Regulations) to enquire into the affairs of Share Aids in the matter of alleged manipulation in the scrip.
- 2.2 The enquiry officer conducted the enquiry in terms of Enquiry Regulations and found that Share Aids had violated the provisions of Code of Conduct as prescribed under Clause A2 of Schedule II of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992. The Enquiry Officer submitted its report dated April 29, 2005 recommending a minor penalty of censure.
- 3.1 A show cause notice dated May 27, 2005 was issued to Share Aids in terms of Regulation 13 (2) of the Enquiry Regulations advising it to show cause as to why action as considered appropriate should not be taken against them. A copy of Enquiry Report was also forwarded to Share Aids along with the said show cause notice.
- 3.2 Share Aids vide its letter dated August 8, 2005 inter alia made the following submissions as under:
 - (i) *They traded on behalf of client, Shri Paresh Champaklal Shah and had entered into sub broker client agreement and Know Your Client form.*
 - (ii) *Trading done from their terminals in the said scrip was between the price range of Rs.9.50 to Rs. 11.00 and thus total price volatility form of trading done is just Rs. 1.50 which is normal*

- (iii) *They had done transactions bonafide and on behalf of client and without any intention of manipulating shares prices of Shree Yaax.*
 - (iv) *They had submitted the undertaking received from the said client Shri Paresh C. Shah.*
 - (v) *They are not concerned with the management of the company .*
- 3.3 An opportunity of personal hearing was granted to Share Aids before me on March 2, 2007 However, no one attended the hearing on behalf of Share Aids.
- 4.1 I have carefully examined the investigation report, the show cause notice and the reply of Share Aids. My findings are as under:
- 4.2 I note that there was rise in the price and volume of the scrip traded during the period under investigation. The performance of the company, Shree Yaax does not justify such rise in the price. The seven clients of different brokers had traded significantly in the scrip during the period under investigation.
- 4.3 From the settlement wise trade details of the concerned brokers, the trades of the said 7 clients during the period under investigation had accounted for approximately 98.65% of gross purchases and 98.91% of the gross sales in the scrip.
- 4.4 I find that most of these clients had squared up their individual positions among themselves within the respective settlements. Though there was a gap of some minutes between orders on both the sides, it is well known that in illiquid scrips the order on both sides can match in the desired manner without synchronisation also. This indicates that the shares have been rotated among the group in such a manner that mostly at the end of the settlement their net positions were "nil". Such deals were in the nature of circular trades and had created artificial volume in the market. I find amongst different brokers and sub brokers, Share Aids was identified as one of them who dealt with its client, Paresh Champaklal Shah.
- 4.5 I find that the clients namely, Paresh Champaklal Shah, Kajol Impex Ltd., Trans Fiscal Pvt. Ltd. Samir D. Patel, Gaurang G. Patel traded frequently in the scrip and were connected / related to each other or with the company as under:

- (i) Shri Shalesh S. Patel is Managing Director of the company (Shree Yaax) and also one of the Directors of the client Kajol Impex Ltd.
- (ii) Shri Manish D. Patel is one of the Directors of the company (Shree Yaax) and also one of the Directors of the client Transfiscal Pvt. Ltd.
- (iii) Shri Gaurang G. Patel is one of the Directors of the company (Shree Yaax).
- (iv) The clients Kajol Impex Ltd. and Transfiscal Pvt. Ltd. have a common Director – Shri Kirit S. Pandya.
- (v) Shri Paresh Champaklal Shah, client sold 39,000 shares of Shree Yaax during the settl. No. 157/02-03 which were delivered from the demat account (ID 10004919) of Gaurang G. Patel, one of the Directors of the Company (DP: H. Nyalchand Financial Services).

4.6 The issue to be considered is whether volatility of Rs. 1.50/- and using 39,000 shares of the company director out of 5.68 lacs shares sold, can prove manipulation on the part of Share Aids. In this connection, Share Aids submitted that the trading done from their terminal in the said scrip was between the price range of Rs. 9.5/- to Rs. 11/- and therefore the volatility was to the extent of Rs. 1.50/-, which was normal. The client Paresh Champaklal Shah filed an affidavit stating that he was neither involved with any of the director/office bearer of the company nor with the broker. However, I have noted that 39,000 shares out of 5.68 lakh (approx.) shares sold came from the DP account of one of the directors of the company.

4.7 I find that though some of the clients had acted in concert in manipulating the scrip, Share Aids dealt with only one of those clients where there is no evidence to establish that Share Aids was aware of concerted action by its client with others. Considering the weak fundamentals of the company and illiquidity of the scrip, Share Aids could have suspected the trading pattern of its client, who was squaring up his positions without any delivery. Share Aids should have exercised due care and diligence as mandated by the Code of Conduct prescribed under the SEBI (Stock Brokers and Sub Brokers) Regulations.

5.1 Therefore in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act, 1992 read with Regulation 13(4) of the said Regulations, 2002 I direct Share Aids having SEBI Regn No. INB180573313 to be careful in future and exercise due care and diligence in the conduct of its affairs as a capital market intermediary. I also direct

Share Aids to note that any instances of violation or non compliance of the SEBI Act and Rules and Regulations in future shall be dealt with stringently.

Date: 20.8.2008
Place: Mumbai

T. C. Nair
Whole Time Member
Securities and Exchange Board of India